

December 4, 2012

Via Electronic Filing

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: Rural Health Care Universal Service Support Reform (WC Docket No. 02-60)

Dear Ms. Dortch:

We would also like to again emphasize that the funding framework in the Pilot Program is a proven success with Colorado rural health care providers and their respective sites, including hospitals, rural health clinics and behavioral health facilities throughout Colorado. We therefore urge you to retain key elements of the Pilot Program as you transition to a RHC broadband support mechanisms. The success of the program lies in mutually reinforcing mechanisms – the 85 percent subsidy, consortium filing, rural-urban partnerships, multi-year awards, and flexibility to direct the subsidy to meet individual site needs. Taken together, these factors have effectively reduced barriers to broadband health care accessibility.

In particular, we strongly urge the Commission to leave intact the 85 percent funding percentage used in the Pilot Program. Any reduction in the level of subsidy would have adverse consequences for the existing participants and for those sites planning to connect to the network in anticipation of the next round of funding. Our experience shows that the 85 percent subsidy cap strikes the right balance between incentive and responsibility for provider sites to continue participation in the program.

A cost ceiling of \$400 million/year has been set by the FCC for this program out of available Universal Service cash funds. This cash fund had been underutilized in the past. The purpose of the pilot program was to get more of the available cash funding employed to support broadband adoption by rural health care sites. One major cost issue is whether this cap will be exceeded if in the new rural health care broadband mechanism the federal support remains at 85 percent. A second concern is whether 85 percent is too high a level of federal support. Here are some facts and conclusions regarding these two concerns:

Findings:

- FCC has set a \$400 MM/YR cap on funding for rural health broadband consortia from Universal Service cash fund
- As of 1/31/2012 USAC committed \$217 million to 2,106 sites at \$100,000/site. Averaged over 3-year period of funding this is \$33,333/site [source: 5/4/2012 USAC letter, pg. 2]
- Total/site (85 percent federal plus 15 percent local) = \$39,215/year

- At 85 percent, 12,000 sites could be funded (allows for 5.7-fold growth in number of sites funded)
- At 65 percent, 15,600 sites could be funded (allows for 7.5-fold growth in number of sites funded)
- At 85 percent federal support, sites paid \$5,882/site in local match
- At 65 percent, federal support, sites would pay \$13,725, an increase of 233 percent.

Colorado estimates 60 sites withdrew in the original Pilot Program offering because the match at 85 percent was too high (\$490/month national average) to accommodate individual site budget constraints. Decreasing federal support from 85 percent to 65 percent increases local match by 233 percent. This is untenable for small rural sites (it is an increase of \$653/month -- a substantial hit to a small rural entity operating on tight margins and in some cases with budget deficits). We conclude that, a decrease in federal support from 85 percent to 65 percent will likely decrease participation incrementally by percentage of subsidy reduction. The purpose of program was, and is, to increase participation of rural sites (especially small ones) in broadband networks. With a permanent change in the Rural Health Broadband Program, a change in support from 85 percent to 65 percent jeopardizes this goal of the program as envisioned by Congress. In the unlikely event the cap is exceeded, the FCC could prorate the percentage of federal support to keep under the cap (precedent: FCC prorated 2007 awards from 2-year support to 3-year support).

COST OF RURAL HEALTH BROADBAND CONSORTIA AT 85% OR 65% FOR COLORADO AND NATION OVER THREE YEAR AWARD PERIOD

	COLORADO	NATION
Estimated Number of Sites	400	4,000
Total Cost to Government over 3 years		
65% Subsidy	\$30 M	\$300 M
85% Subsidy	\$40 M	\$400 M

As we have stated in earlier filings, “Given the high cost of bandwidth in rural America, even a 15 percent funding obligation makes rural health care providers significantly invested in the networks they are using. The projected impact of reduced funding in Colorado – will result in a 25 percent reduction in participating sites and difficulty expanding the network to serve additional sites – belies any concern about accountability at the 85 percent funding level.”

Thank you for your support of this program. Please let us know how we can be of further assistance as the Commission deliberates over the next RHCPP order.

Notes:

1. The total cost to the permanent program depends on three things: 1) the number of sites participating, 2) the cost per site, and percentage subsidy.

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2. Colorado plans to double its number of sites from 200 to 400; therefore a best estimate of the total number of sites for the nation is doubling from 2,000 sites to 4,000 sites. For perspective, for the pilot program, FCC received application for 6,000 sites but funded only 2,000. Our 4,000 estimate splits the difference.

3. We use \$100,000 as the 3-year federal subsidy cost per site for both Colorado and the nation when subsidized at 85%. The federal cost at 65% is less, \$76,471 per site. The \$100,000 figure is from a letter from USAC to the FCC dated 5/4/2012. A \$100,000 federal subsidy at 85% implies an overall cost of \$117,646 per site.

4. The FCC has placed an annual cap on the program of \$400M per year. This is not an appropriation of tax dollars but of cash funds raised from telephone bills through the Universal Service Fund. From the figures above, a 65 percent subsidy uses only 25 percent of this annual cap; 85 percent subsidy is 33 percent of this annual cap.

Sincerely,



Ed Bostick
Executive Director
Colorado Telehealth Network